



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 48

THE large chart on pages 486 and 487 in this report gives a quick summary of the real estate situation. Probably the most striking thing on this chart is the similarity in the drop below the normal line since March of this year to the drop in the same number of months in 1929 and 1930. In both cases, after activity once crossed the normal line it did not return, and in both cases, after a drop of 4 months, activity increased very slightly for a period of 3 months.

As pointed out in previous bulletins, in the past, after a real estate boom, when real estate activity finally crossed the normal line, the readjustment period in which sales were below normal continued for a period of years.

These cycles of real estate activity should not be confused with changes in real estate prices. It is true that during boom periods prices have generally been considerably higher than they have been during readjustment periods, but the price cycle apparently depends on a number of factors not represented in the activity cycle. Real estate activity is measured by the number of voluntary transfers in relationship to the number of families in the principal metropolitan counties of the United States. We shall be watching this activity index very carefully during the next few months to see whether the similarities which have developed thus far to the beginning of the last big readjustment period continue, or whether this similarity is more or less a coincidence.

We certainly do not mean to imply that the readjustment ahead of us in the real estate field will be similar in intensity to the adjustment which started with the stock market crash in 1929. The drop in the stock market to date has been relatively minor in comparison with those in 1929 and 1930. There are at least six major differences in the real estate picture then and now.

Difference #1. Foreclosures started rising in 1926, and by the time that real estate activity had crossed the normal line on the way down, foreclosures were already fairly high (six times as high as they are now). While foreclosures are up by a very small amount, the rise is insignificant, and it seems improbable that the readjustment period ahead will see any tremendous rise in foreclosures.

Difference #2. This chart shows that residential rents reached their highest level in the first part of 1925, and had been dropping for 4 years before real estate activity crossed the normal line in 1929. In contrast, residential rents are

still rising, and the present shortage of rental units would indicate that there is relatively little chance of falling dollar rents in the immediate future.

Difference #3. There is also some comfort to be derived from the figures on residential building. It will be noticed on this chart that at no time during the recent real estate boom did we get above 38 new dwelling units per year per 1,000 families, while in the boom of the 1920's, on an annual basis, we exceeded 45 in 1925. By the time that real estate activity had collapsed in a similar pattern to the present, dwelling unit construction for an entire year had averaged about 13 dwelling units per 1,000 families in comparison with a rate of 23.5 at the present time. It would seem that we have not overbuilt to nearly the same extent that we did in the 1920's and, therefore, that we would have a great deal less severe readjustment to go through in the period ahead.

The chart at the bottom of the page shows private housing starts in millions of units expressed as an annual rate for each month since 1951. The red lines on this chart show the trend we had been following down from the beginning of 1955 until the middle of 1957. Recent months have broken through the upper trend line, which might indicate that the downward movement has been interrupted. This, too, is a line which should be followed carefully in the next few months as a clue to the type of readjustment period we will experience.

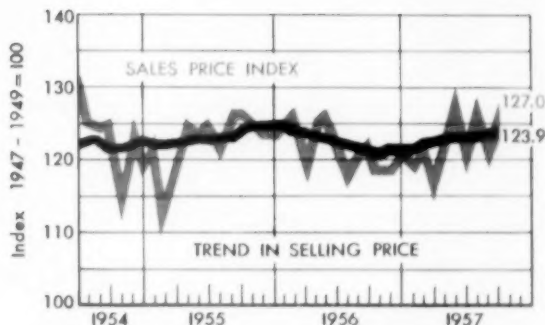
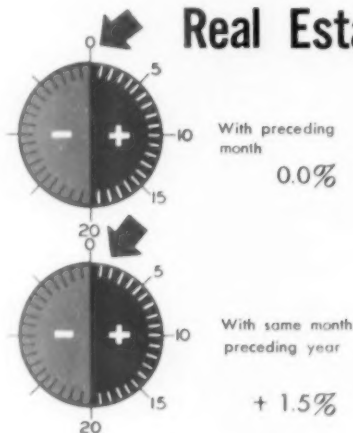


Difference #4. We find a similar contrast between the figures on our center spread chart on construction costs of single-family residences in the boom of the 1920's and the situation as it has developed up to the present time. The highest building costs were experienced in 1924, and each succeeding year showed a drop. The decline had reached considerable proportions by the time that real estate activity dropped below normal. On the other hand, at the present time the construction cost of a 6-room frame residence has continued to rise month by month, and is now at a new high. This has a very stabilizing effect on the values of all useful properties already built.

Difference #5. The chart below shows that the selling prices of existing buildings which have been well maintained in areas which have not had adverse neighborhood influences have held their own in a remarkable manner.* In February, for instance, the average selling price was higher than it was a year ago. This is contrasted with the situation which followed the collapse in business in 1929. Single-family residences hit their highest selling price in about May of that year, and declined rapidly from that time to the time of the stock market collapse. One of

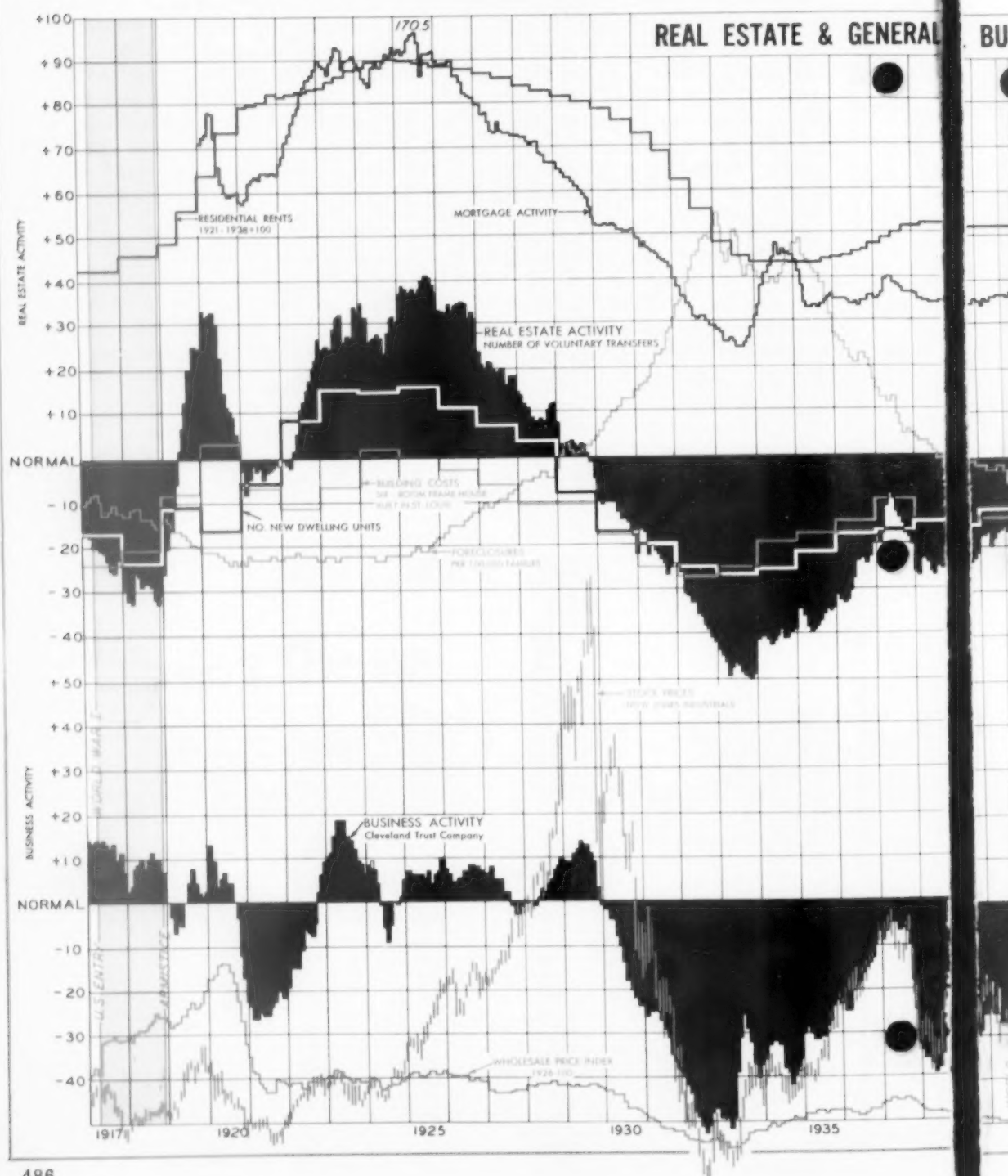
*See page 53, February 13, 1953 "As I See It" Bulletin.

Real Estate Sales Price Comparisons



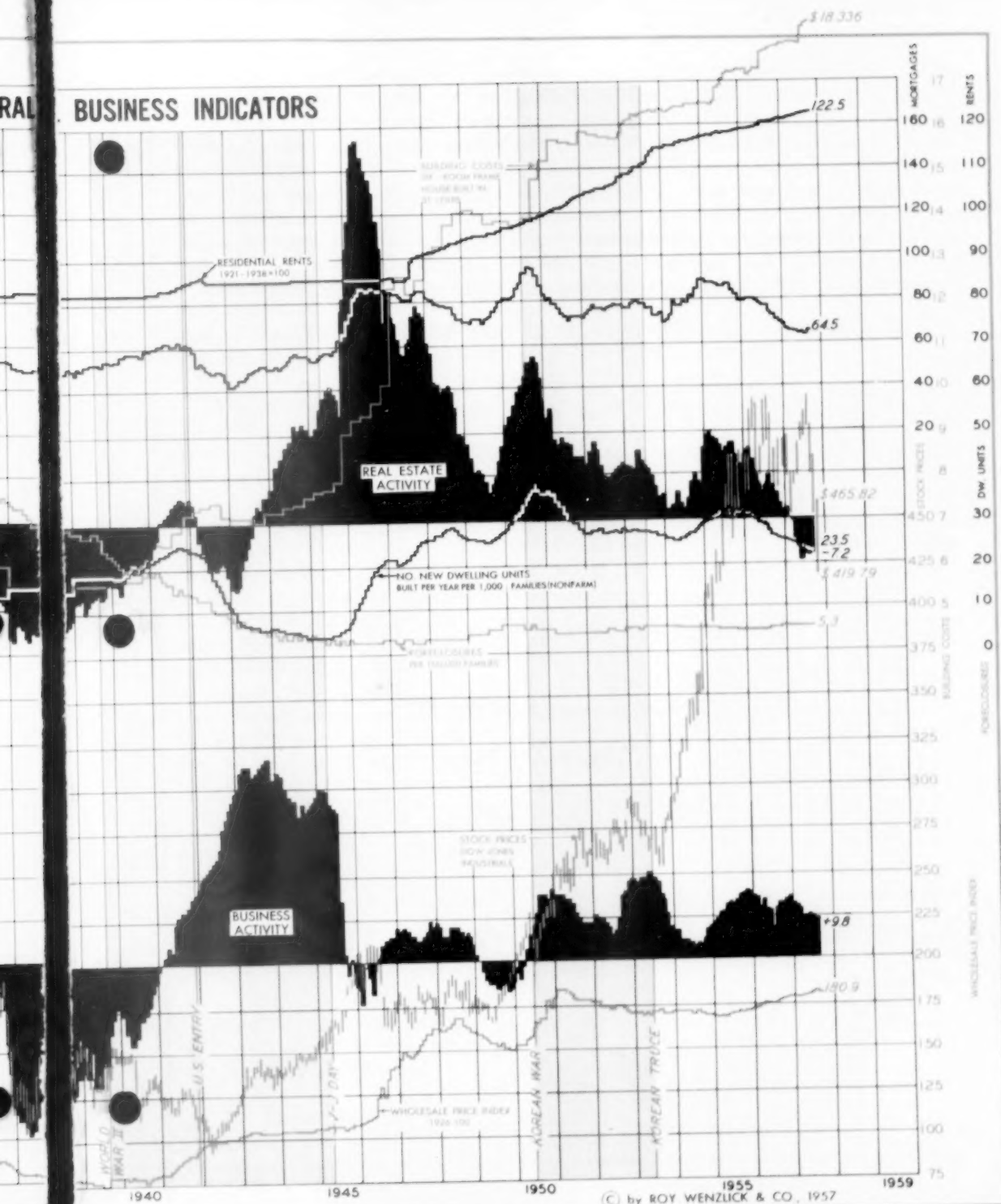
Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000	Oct. '48	104.5	\$12,540
1913	40.1	4,812	Oct. '53	119.7	14,360
1918	34.1	4,092	Oct. '54	122.3	14,680
Mar. '29	73.9	8,868	Oct. '55	125.1	15,010
May '32	34.8	4,176	Jan. '56	125.3	15,035
Apr. '34	44.8	5,376	May '56	123.5	14,820
July '37	40.1	4,812	Oct. '56	121.9	14,630
Apr. '38	42.8	5,136	Jan. '57	121.9	14,630
Mar. '41	40.1	4,812	May '57	123.3	14,796
			June '57	123.3	14,795
			July '57	123.3	14,795
			Aug. '57	123.9	14,865
			Sept. '57	123.9*	14,865*

*Preliminary.



RAL

BUSINESS INDICATORS



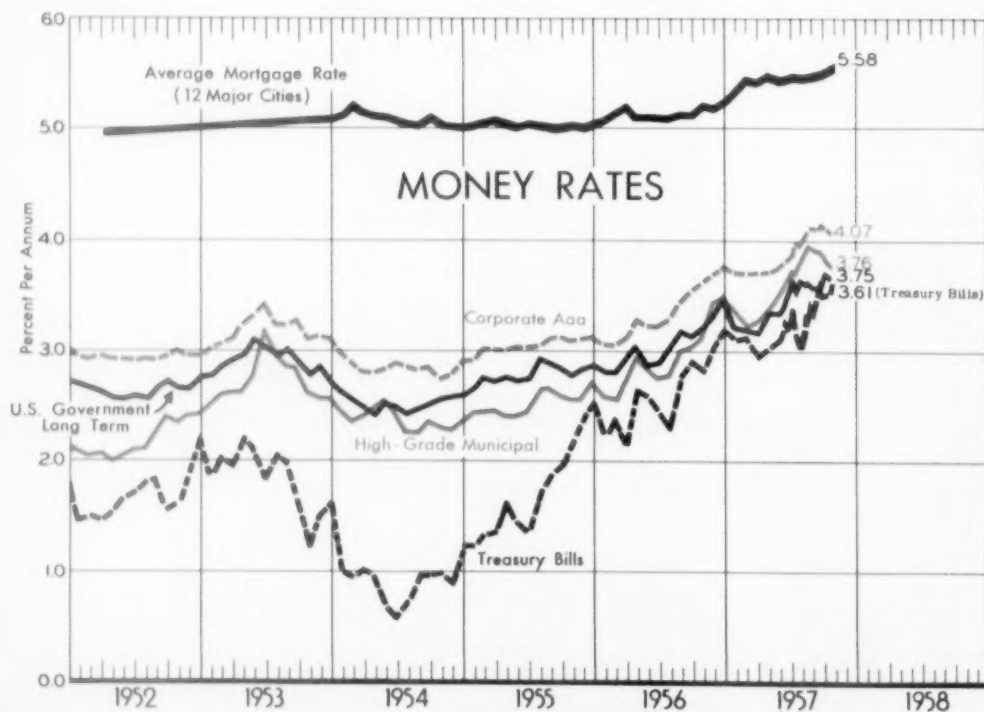
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the reasons undoubtedly that the selling prices of existing buildings have held up as well as they have is the fact that the cost of new buildings is still increasing.

The chart and table below show that interest rates have not yet started dropping. Treasury bills in the last few weeks have moved to new high ground and are fluctuating between 3-1/2 and 3-2/3%. All of the forecasts made at the beginning of the year which indicated that money would ease in the latter part of the year have been proved wrong, and there is still no indication that the peak has been reached. Just so long as pure interest, as shown most nearly by 91-day Treasury bills, continues to rise mortgage interest rates will also go up.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES IN 12 MAJOR CITIES OF THE UNITED STATES

Jan. '54	5.187%	Jan. '56	5.105%	May '57	5.486%
Apr. '54	5.173	Apr. '56	5.157	June '57	5.505
July '54	5.089	July '56	5.141	July '57	5.501
Oct. '54	5.092	Oct. '56	5.229	Aug. '57	5.515
Jan. '55	5.045	Jan. '57	5.363	Sept. '57	5.580
Apr. '55	5.079	Feb. '57	5.478		
July '55	5.050	Mar. '57	5.459		
Oct. '55	5.055	Apr. '57	5.507		



The real estate borrower is in competition with the Federal, State, and municipal governments, corporations, and the demand for consumer credit when he tries to borrow money. Unless the interest rate he can pay is high enough in comparison with the rates other borrowers are willing to pay, taking into consideration the lack of liquidity and the risk involved, there is insufficient money available. Certainly the interest rate on real estate obligations, whether they be government-guaranteed or not, should be free to fluctuate with the market. If the interest rate on FHAs is fixed, there should be no limit on discounts.

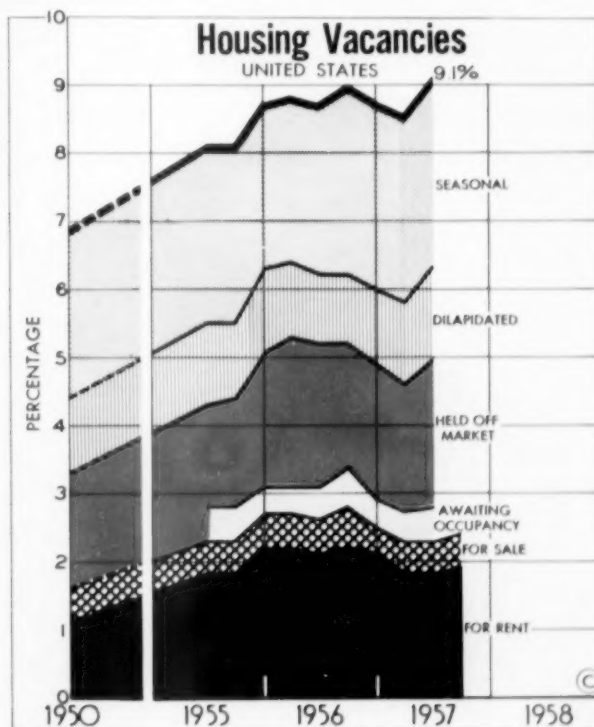
Difference #6. On the chart below we show the results of the quarterly sample surveys of residential vacancies made by the United States Bureau of the Census for 1955, 1956, and 1957. We also show vacancies as reported in the 1950 decennial census.

The Bureau of the Census has just released preliminary figures for the third quarter of 1957 on dwelling units for rent and vacant dwelling units for sale. They have not yet released figures past the second quarter on the other elements of vacancy.

This chart would indicate that from the last quarter of 1956 until the first quarter of 1957 residential vacancy was declining. Since then, however, there has been a slight increase in vacancy, but with the exception of seasonal vacancy and dilapidated units for rent, vacancy in 1957 has been running under that of 1956. This is undoubtedly the result of the smaller volume of residential building which has been done this year.

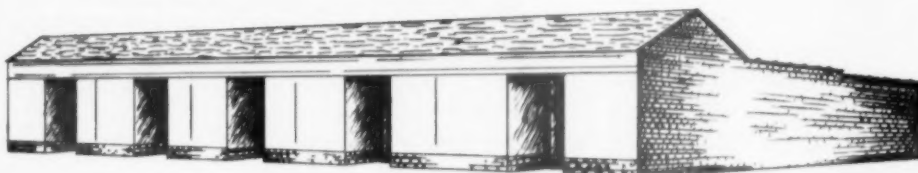
By any standards, residential vacancy of all types is still unusually low. While we are no longer in an acute housing shortage, neither are we in a period of housing surplus. A comparison with 1932 shows vacancies at that time at from 15% to 20%, without including seasonal vacancy in the tabulation.

For these six reasons it seems that the readjustment will be relatively mild.



INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
October 1957



COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet
8,075 square feet

Cost 1939: \$22,726
(19.6¢ per cubic foot; \$2.82 per square foot)
Cost today: \$69,483
(60.0¢ per cubic foot; \$8.60 per square foot)
INCREASE OVER 1939 = 205.7%

For plans and specifications see page 74
of the Wenzlick Building Cost Manual.



18-FAMILY BRICK APARTMENT (FRAME INTERIOR)*

Content: 168,385 cubic feet
13,260 square feet

Cost 1939: \$ 60,300
(35.8¢ per cubic foot; \$ 4.55 per sq. ft.)
Cost today: \$179,781
(\$1.07 per cubic foot; \$13.56 per sq. ft.)
INCREASE OVER 1939 = 198.1%

For plans and specifications see page 60
of the Wenzlick Building Cost Manual.



30-UNIT REINFORCED CONCRETE APARTMENT*

Content: 303,534 cubic feet
21,372 square feet

Cost 1939: \$135,000
(44.5¢ per cubic foot; \$ 6.33 per sq. ft.)
Cost today: \$389,634
(\$1.28 per cubic foot; \$18.23 per sq. ft.)
INCREASE OVER 1939 = 188.6%

For plans and specifications see page 68
of the Wenzlick Building Cost Manual

*Costs include full basement